

The below section, from the FY 2005 Annual Report, are examples of the Program Performance Summary, SO Level Performance Narrative, Results Framework and Resource Request Narrative that fulfill requirements described in the Annual Report Guidance. Requirements are cited below at the end of relevant sentence or paragraphs with the symbol **[**NOTE:_____]**

South Africa

A. Program Performance Summary Example

Program Narrative (FY 2004): In 2004, South Africa celebrated a decade of democracy and held its third consecutive national democratic elections. However, joblessness, crime, and corruption sap public support for South Africa's hard won democracy. The official unemployment rate is estimated at 27.8%, and crime rates remain extraordinarily high with 22.9% of South Africans being victims of crime in 2003. Income distribution is extremely unequal with over 50% of the total population, mostly black South Africans, living below the poverty line. The health of the South African population has declined rapidly over the last ten years largely due to the rapid spread of the HIV/AIDS epidemic, with an estimated HIV prevalence of 27.9% among pregnant women. The quality of education remains a concern with black South African students still receiving poorer instruction and access to advanced courses and technology. Almost 10 million South Africans still live in slums, 16% lack basic shelter and 41% lack basic sanitation. Only 80.3% of black South African households have access to piped water compared to 99.2% of Indians and 99.3% of white South African households. The transfer of ownership, equity and management from established commercial farmers to historically disadvantaged farmers remains one of South Africa's most sensitive rural development issues.

The USAID program supports South Africa's efforts to address these social and economic constraints. With all donor resources in South Africa totaling less than two percent of the government's budget, the USAID program focuses on strategic interventions that work as a medium to produce broader change. **[**NOTE: This statement provides important contextual information regarding the general assistance environment in the country and provides some rationale for USAID's general approach.]** Through targeted interventions, USAID is helping South Africa make policy and operational changes that help fight crime, deliver basic services such as water, electricity and sanitation, and help stem the pandemic of HIV/AIDS. Programs in education and primary health care focus on the poorest provinces in South Africa - Eastern Cape, Kwa-Zulu Natal, Limpopo, Mpumalanga and Northern Cape (education only) which have 56% of the total population. USAID has scaled up programs to address the dramatic increase in HIV/AIDS throughout the country.

Challenges: South Africa's greatest challenges in the decade ahead are to ensure that the epic changes made in the first decade of freedom are consolidated and impact the lives of everyday South Africans. While the first decade included landmark changes in the country including the dismantling of entrenched apartheid systems in the legislative arena, there is still great social and economic division. With new policies and laws in place that provide a clear mandate and framework, South Africa can begin to make advances in reducing unemployment, fighting crime, stemming HIV/AIDS and providing basic services to all its citizens. USAID programs help South Africa put its sound macroeconomic policies into action and promote innovative approaches to boost employment and reduce poverty.

[NOTE: This section describes the country context, including the most important challenges facing the country. It also describes how USAID programs are responding to these challenges.]**

Key Achievements:

[NOTE: The following paragraphs are well-focused on key achievements and, where possible, impact. Statistics cited are generally appropriate to the contextual information provided.]**

HIV/AIDS and Primary Health Care: USAID continued to support South African efforts to expand quality primary health care to neglected areas of the country. With HIV prevalence of 27.9% among pregnant women and tuberculosis rates among the top ten in the world, South Africa's health challenges are great. South Africa is a focus country under the President's Emergency Plan for AIDS Relief and USAID is a principal implementer of those programs. The significant boost in resources received under the Emergency Plan has helped to expand HIV/AIDS interventions across the country. The State Department's Office of the Global AIDS Coordinator's report discusses these achievements and programs at <<http://www.state.gov/s/gac>>. Over the past seven years USAID has helped South Africa transform primary health care in the Eastern Cape, one of South Africa's poorest provinces. Primary health care services are now available at 97% of the 689 clinics in the province reaching over 6.4 million people. Community involvement has increased with more than 600 well functioning hospital and clinic committees. The province now devotes more than half of its budget to primary health care, compared to less than 20% of the budget in 1997. Using the achievements in the Eastern Cape, the USAID program builds on South Africa's considerable resources to expand health care to more South Africans around the country. USAID-funded experts help South Africans do their jobs better, by ensuring the quality of health care services through technical training, providing key guidelines, and building information systems that help South African health officials plan and budget to make sure clinics are staffed and that essential drugs are available when needed by patients.

Additional achievements in primary health care in FY 2004 include key HIV/AIDS services and support to 106 hospitals and 944 clinics in five provinces to improve the quality of care in maternal and child health and tuberculosis (TB). For example, USAID technical assistance helped an Eastern Cape hospital restructure its voluntary counseling and testing program, resulting in an increase from 40% to 72% of clients in the first nine months of 2004. Using innovative mobile clinics funded by USAID, an implementing partner reached more than 30,000 people in 32 rural clinics with services including sexually transmitted infections (STI) diagnosis and treatment and reproductive health and minor ailment services. Tuberculosis remains a key issue for South Africa with only a 54% cure rate and about 13% of those on treatment not completing the prescribed course. Research shows that the most effective treatment for TB is the directly observed treatment regime, which requires daily interaction with patients during the six to eight month treatment period. In South Africa, this labor intensive approach is being implemented by government clinics with the support of non-governmental organizations (NGOs). In FY 2004 USAID support for three NGOs implementing TB activities in eight communities across four provinces reached 8,106 people with TB prevention and treatment messages, and 461 patients completed their treatment.

Education: USAID's support to the transformation of the education sector in South Africa is producing demonstrable results. Working in 449 rural primary schools, the USAID program helped students increase their knowledge and skills. Results from a USAID-supported basic education program showed a 22% increase from 37% to 45% in literacy and mathematics from 2000 to 2003 in test scores for grade 3 students. Under apartheid, black South Africans were excluded from programs which built knowledge in math, science and technology at the secondary school level. Ensuring that black students have access to quality education in these areas which are essential for skilled employment is a key objective of USAID and the South African Government. USAID continued its commitment to this goal through specialized training for math, science and technology secondary school teachers, with 55 completing the program in FY 2004. Disparities remain at the higher education level as well, and USAID continued to assist South Africa's 17 historically disadvantaged higher education institutions in meeting international standards. These universities and technical institutes which served principally African, Colored (a South African racial classification) and Indian students under apartheid are in the process of merging. Some mergers will be between historically disadvantaged (black) and historically advantaged (white) institutions, while others will combine historically disadvantaged universities under one umbrella. USAID programs focus on helping the institutions prepare for these mergers, and in FY 2004 USAID assistance helped the merging universities and technical institutes harmonize curricula with the goal of continuing to offer quality instruction across the

board.

Housing and Municipal Services: Urban areas in South Africa contain 57.7% of the population and produce 75% of the Gross National Product. South Africa's goal is to expand services to 80 - 100% of the urban population over the next ten years as it seeks to eradicate slums. USAID's innovative program assists South Africa to achieve this objective through cross-cutting approaches to advance clean energy technologies, to improve access to energy, and to test a range of options for managing solid waste in poor communities. Over the last five years the program has reached 3.3 million poor households with improved or new services in water, power, sanitation, and shelter. In FY 2004, USAID support to a South African organization resulted in six new projects valued at 689 million Rand (\$103.7 million) reaching over 133,000 households. USAID technical assistance helped put in place a new legal framework for municipal borrowing and during this year helped roll out revised financial procedures to 150 municipalities bringing more than half of the country's local governments into modern municipal management practices. Through a Development Credit Authority (DCA) guaranty, USAID launched a new \$35 million infrastructure finance program which will reach up to 10 municipalities over the next two years, focusing on water and sanitation services.

Democracy and Governance: USAID continued to assist South Africa in its fight against crime, boost its efforts to strengthen local government to assume a more accountable role, and to help civil society remain a vibrant counterpoint to government authority. USAID support to help restructure South Africa's court system has reduced the case backlog by 11% from 133,556 in FY 2000 to 119,050 in FY 2004 in districts courts, ensuring that South Africans have better and faster access to justice. USAID programs also address corruption which leads to lack of public confidence and reduced investment in South Africa. In FY 2004 a new USAID-supported forensic auditing unit in the Department of Justice (DOJ) uncovered four cases of corruption involving \$3.3 million and filed three of the cases in court since its inception in April 2004. Over the life of this program USAID has provided key technical assistance to help South Africa draft legislation which establishes the framework for local governments to raise revenue and provide services to their citizens. During FY 2004, the fourth and final major piece of such legislation -- the Property Rates Act, aimed at increasing municipal revenue -- was signed into law. USAID programs have complemented the legislation through direct assistance in 94 municipalities to help the local authorities respond to community needs. A FY 2004 survey found that 35% of the residents in these municipalities approved of the performance of their local council, up from 31% in FY 2002. Because many community based organizations are unaware of how local government functions and how they can influence local governance in a way that will benefit their communities, USAID is funding a program to build linkages between communities and local governments. Activities began in FY 2004 with 45 local organizations and 15 local councils in KwaZulu Natal, Limpopo and Gauteng provinces.

Employment Generation: Unemployment is South Africa's number one issue. USAID's employment generation program continued to help historically disadvantaged small, medium and microenterprises create sustainable jobs. Using technical assistance to help these firms meet production, standards, and financial and regulatory requirements, USAID is working with businesses to expand their markets and compete in the domestic and global economies. Exceeding expectations, in the last two years the USAID employment generation program has generated over 4,500 jobs and over \$279 million in sales in the small and medium business and agribusiness sectors. Because the cost of financing including banking charges is high in South Africa, in FY 2004 USAID used the DCA to guarantee a loan for Capitec Bank, a new innovative bank that provides financial services for the poor. This loan will help Capitec expand its operations to new markets throughout the country and build its branch network.

Economic Capacity: USAID's economic capacity building program continued to build a cadre of historically disadvantaged South African economists. Since the start of the program 64 South Africans have received masters and doctorates in economics at U.S. universities with an additional seven receiving economics degrees at South African universities. In FY 2004, 41

historically disadvantaged South Africans completed their training. Twenty eight of those receiving degrees were parliamentarians from disadvantaged backgrounds who publicly acknowledge the USAID program for its impact on parliament's ability to review and analyze the national budget judiciously. These USAID-trained economists are in positions of influence and decision-making in the South African government, using their skills to expand the government's knowledge based on the dynamics and fundamentals of poverty to direct and develop policies dealing with unemployment and poverty. In FY 2004 USAID-funded advisors working alongside South Africans produced analyses that resulted in policy changes including opening the banking sector to greater domestic and international competition and developing truth-in-lending and communal land tenure legislation. The program also has helped to build the capacity of the government's public-private partnership unit, and during this period four projects were finalized with a value of \$287 million. One of these activities was the construction of a new campus for a government office which emphasized the use of black and small-business contractors, protection of the environment, urban renewal and cost savings. Ultimately, this partnership generated savings of over \$200 million compared to construction by government. This same unit also developed a way for the government to use public-private partnerships to implement the program. The resulting approach is cheaper to run, delivers the grants to individuals faster, and reduces waiting time.

Regional HIV/AIDS Program (RHAP): The Regional HIV/AIDS program was approved as a stand-alone program in FY 2004, and is implemented in a joint regional strategy with the U.S. Centers for Disease Control and Prevention. Building on its earlier activities under an Africa Bureau Objective, RHAP achievements in FY 2004 include the scale-up of activities in the USAID non-presence countries of Lesotho and Swaziland and increased access to HIV/AIDS prevention programs and services under the Corridors of Hope (COH) cross-border program. The cross-border program operates through 38 sites in eight countries within the region, reaching over four million people in FY 2004 with essential information and services to prevent transmission of HIV/AIDS. RHAP expanded programs in Lesotho and Swaziland, opened three new clinics in Lesotho and reached 1,165 pregnant women with prevention of mother to child transmission programs in Swaziland in the first three months of operation. These critical services are essential in helping both countries tackle the HIV/AIDS epidemic. According to the latest UNAIDS figures, Swaziland has the highest HIV prevalence rate in the world at 38.8%, while Lesotho ranks third at 28.9%.

Gender: A Gender Assessment conducted in FY 2004 identified a number of best practices as well as establishing recommendations for future consideration. **[**NOTE the use of gender analysis to help ensure that an understanding of gender issues can be integrated into the design of program activities.]]** A particular issue identified by the team is gender-based violence which has the potential to undermine the ability of nearly all the programs to achieve their ultimate development goals. South Africa has one of the highest incidences of gender-based violence in the world. The assessment recommends developing ways to address gender-based violence as a cross-cutting priority as new programming opportunities arise. In ongoing programs, USAID addresses gender concerns by helping women owned businesses increase sales and access finance, promoting the participation of women in economic policy analysis and decision making, improving access to justice for women and children victims of violent crimes, providing training for women to become judges, and promoting the role of women in housing development and municipal management. USAID health activities focus on expanding the availability and quality of HIV/AIDS and primary health care services, including the prevention of mother to child transmission and orphans and vulnerable children programs. **[**NOTE that projects that solely target women may or may not address the underlying systemic causes of persistent inequalities—it depends on the approach taken in the activity.]]**

USAID also supports the innovative Men As Partners program which seeks to increase male roles and responsibilities in reproductive health issues by shifting attitudes toward gender norms to promote healthy, respectful relationships between men and women. **[**NOTE: This sentence demonstrates an understanding of the impact of traditional gender norms on development outcomes]]**

[[NOTE: This paragraph describes how USAID programs address gender disparities, a key cross-cutting issue for the Agency.]]**

Integrated Programming and Cross-Cutting Issues: With HIV prevalence of 27.9% among pregnant women, the impact of the epidemic is not restricted to the health sector, and USAID/South Africa supports a number of multisectoral activities which address specific aspects of AIDS. For example, the Democracy and Governance Program and the Municipal and Housing Services program jointly support an NGO program which brings local government councilors, officials and community leaders together to develop joint plans to mitigate the HIV/AIDS pandemic. By the end of 2004 the program had assisted 124 of the 284 municipalities to develop HIV/AIDS strategic plans, of which 62 are being implemented. USAID also funded seven South African universities to undertake HIV/AIDS-focused activities in support of university staff, students, and the surrounding communities. In FY 2004, with USAID funding, Takalani Sesame continued its television and radio programming which reaches pre-school children with messages about HIV/AIDS through the HIV-positive Muppet "Kami". The Economic Capacity Building program brought together several donors and private foundations and corporations to continue funding essential research on the economic impact of HIV/AIDS in South Africa. In other areas of collaboration, the Mission's Economic Capacity Building and the Democracy and Governance programs collaborated to train members of parliament and nine provincial legislatures' public accounts committees to analyze and implement the findings of the Auditor-General to advance anti-corruption objectives. The Housing and Municipal Services program worked with the Democracy and Governance team to provide technical and "peer-to-peer" assistance to the South African Cities Network in designing sustainable city development strategies. **[[**NOTE: This paragraph describes USAID's approach to key cross-cutting issues, including HIV/AIDS, anti-corruption, and urban development.]]**

Global Development Alliances and Partnerships: USAID/South Africa leveraged \$653 million in FY 2004 from Global Development Alliances (GDAs) and partnerships with non-traditional partners, primarily the private sector. A GDA with Business Against Crime, a nonprofit association of major South African corporations, continued to address accessibility and effectiveness of the South African Department of Justice. USAID continued to support a public-private partnership with Microsoft and other key private sector firms to support teacher training in math, science and technology. A GDA in intellectual property rights and a regional GDA in the area of urban youth development have leveraged almost \$2.5 million over the last two fiscal years as well.

Furthermore, USAID programs with two South African units, the Municipal Infrastructure Investment Unit (MIIU) and the Public Private Partnership (PPP) Unit encouraged investment and financing by the private sector and leveraged nearly \$400 million. The PPP unit leveraged \$287 million, while the MIIU leveraged approximately \$103.7 million (R689 million) in deals in FY 2004. Ongoing donor coordination in research on the economic impact of HIV/AIDS is expected to leverage \$8 million by the end of FY 2006. USAID also established two new partnerships with a non-profit South African organization, Mindset Network, which uses satellite broadcasts with additional print and internet material to expand educational information. One of these Mindset programs will focus on HIV/AIDS and related issues and will be targeted to healthcare workers, patients, and the general public, leveraging \$3 million at the end of FY 2005. The other partnership with Mindset, foundations, and key South Africa private sector firms delivers high quality materials in basic education and will leverage \$3 million by the end of FY 2007. While not meeting a strict definition of Global Development Alliances, these innovative partnerships continue to leverage additional resources for development as USAID input is limited to technical assistance in the design and structuring of these partnerships or transactions. **[[**NOTE: The previous two paragraphs describe GDAs and other partnerships with non-traditional partners.]]**

Presidential Initiatives: USAID/South Africa responded to seven Presidential Initiatives in FY 2004 which included: 1) President's Emergency Plan for AIDS Relief - activities in all areas of

prevention, treatment, palliative care and orphans and vulnerable children; 2) Africa Education Initiative - teacher training and a new regional program using satellite and television-based approaches to expand primary education; 3) Initiative to End Hunger in Africa - continued work on improved pest resistant potato varieties and a NEPAD pilot project in developing national level biotechnology policies; 4) Water for the Poor Initiative - activities to restructure water system operations, promote payment for services, and ensure efficient and equitable water service delivery; 5) Global Climate Change - programs in cost recovery, energy efficiency, and the use and financing of clean energy and water saving technologies; 6) Clean Energy Initiative - partnerships demonstrating energy efficient delivery of basic services and shelter; and 7) Trade Initiative - assistance to emerging businesses to export to other African countries for which exports totaled \$15.6 million in FY 2004. **[[**NOTE: This paragraph lists the Presidential Initiatives to which USAID programs contribute.]]**

Environmental Compliance: USAID/South Africa has reviewed all strategic objectives and determined that all current activities are in reasonable compliance with approved Initial Environmental Examinations (IEEs) and Categorical Exclusions, and that mitigations and conditions are being followed. Currently three IEEs cover the Democracy and Governance programs, and one consolidated IEE covers the Education programs addressing the technically adjusted education strategy. The HIV/AIDS and Health programs are covered by an amended comprehensive IEE, expanded to cover the President's Emergency Plan for AIDS Relief program. The Economic Capacity Building programs are covered by an updated amended Categorical Exclusion (approved 30/9/03), addressing increased ceiling levels and program adjustments. The Employment Generation programs are covered by an approved Categorical Exclusion and are putting in place environmental review, monitoring and training for disadvantaged businesses. The Housing and Municipal Services programs are covered by an approved umbrella IEE, consolidating six previous IEEs. A Municipal financing DCA with the Municipal Infrastructure Investment Unit (MIIU) is subsumed within the umbrella IEE's DCA provisions, and the same due diligence process applies. The IEE for the Regional HIV/AIDS Program is in its final draft stage. The Regional Environmental Officer makes periodic monitoring and advisory visits to the Mission and key partner programs. **[[**NOTE: This paragraph includes a detailed treatment of environmental compliance, please refer to the guidance for specific guidance for the FY2006 AR.]]**

Tajikistan

B. SO Level Performance Narrative Example

119-0131: Improved Environment for the Growth of Small and Medium Enterprises

Performance Goal: Institutions, laws, and policies foster private sector led growth, macroeconomic stability, and poverty reduction **[[**NOTE the link to a primary State-USAID performance goal]]**

SO 04 Performance Overview: USAID's program provides direct support to small and medium enterprises (SMEs) to strengthen their competitiveness and supports policy and legal changes to improve the environment for doing business in Tajikistan. Economic assistance is particularly crucial in this economy as it is the poorest and most susceptible to instability in the region, and much still needs to be done to establish a fully functioning market economy. The SME sector is small and mostly agriculture-based, but efforts to develop SMEs by improving business skills and expanding access to finance are important to improving economic prospects for the population. Work at the policy level to strengthen the legal and regulatory framework for business, the credibility of the judicial process, and the banking supervision system are also key components of USAID's assistance strategy in Tajikistan.

Tajikistan sustained a third year of fairly robust growth, with GDP expected to grow by 8.5% in

2004. USAID's policy, legal, and institutional reform programs contributed to some significant achievements in the last year. Work with the National Bank to bring supervisory standards closer to compliance with international norms is helping raise public confidence in the banking system, and will be critical to mobilizing domestic savings for investment. USAID-funded technical experts helped the Government draft a comprehensive microfinance law that was passed in April. USAID's partnership with the European Bank for Reconstruction and Development to expand commercial bank lending to small and micro enterprises is starting to have a real impact. In addition, with assistance from USAID-funded expertise in preparation for World Trade Organization (WTO) accession, the Government successfully held its first WTO Working Party meeting in Geneva in March 2004, with follow-up work well underway. According to USAID's strategic objective indicator, an index of benchmarks on which SMEs are surveyed on issues such as access to training, credit conditions, and government compliance with commercial laws, Tajikistan made modest progress in improving the business environment, scoring 39.7, **[[**NOTE: It is not clear from the narrative what this score indicates.]]** which exceeds the target set for 2004. The survey shows that membership and effectiveness of business associations have increased considerably.

FY 2004 economic programs contributed to development and empowerment of civil society by strengthening business associations and improving public-private sector dialogue. Our efforts in the accounting reform, banking supervision, and functional reorganization of tax services contributed to reduced opportunities for corruption. Our enterprise development and microfinance programs supported the social sector by creating more jobs and improving the income of poor people in urban and rural areas, thereby increasing their access to higher quality health care and education services.

While there has been notable Government support for reforms and clear indication of cooperation with and support for our programs, there are also significant constraints and lack of political will in some areas (including commercial law and land reform) caused mostly by lack of understanding of reforms, weak administrative and analytical capacities in the Government, fear of losing control and power, corruption, and lack of trained and qualified human resources.

[[NOTE: This section describes in general terms the environment in which the USAID program is operating, including the level of Government commitment, and how USAID programs are responding.]]****[[**NOTE: This section does not respond to the guidance requirements for information on critical gender issues and or dynamics, what gender factors are critical to the achievement of the SO, how gender issues have been integrated into the activities, and how gender biases will be improved.]]**

04 SO Performance:

Expand And Improve Access To Economic And Social Infrastructure **[[**NOTE selection of an inappropriate program component]]**

To better prepare young entrepreneurs with the new skills required in today's marketplace and to improve the quality of economics and business education, USAID continued to work with faculty members and administrators of higher education institutions to develop market-relevant curriculum and teaching methods. In 2004, more than 138 faculty members **[[**NOTE that per ADS 203.3.4.3 performance management systems must include sex-disaggregated data.]]** from 25 institutions participated in EdNet Academy's faculty development certification program, 12 of which completed a 40-week intensive program. These faculty members will better prepare university students to meet the challenges of a market economy and improve decision making in firms where they work. In the 2004 academic year, USAID's partner Junior Achievement Tajikistan (JAT) worked with 119 schools and 175 teachers to teach JA Economics at secondary level institutions and hold fairs and other activities to provide students with skills to better

understand the market economy and increase their chances of success in starting or working at a business. The program reached 9,952 students. JAT also opened two new regional offices in Khatlon and Sugd to increase its reach. With the assistance of the USAID-developed accounting training and certification program, 15 colleges and universities in the country established IFRS-based accounting curricula. **[[**NOTE that the discussion of the program component includes information on key program/project achievements.]]** **[[**NOTE: This section does not respond to the guidance requirements for information on critical gender issues and or dynamics, what gender factors are critical to the achievement of the SO, how gender issues have been integrated into the activities, and how gender biases will be improved.]]**

Improve Economic Policy And Governance **[[**NOTE selection of an appropriate program component]]**

USAID's indicators demonstrated positive trends in improved tax administration. Tax revenue as a percentage of GDP is projected to increase modestly from 14.9% **[[**NOTE this figure does not match the actual 2003 figure provided in the indicator table]]** in 2003 to 15.3% in 2004, as estimated by the Ministry of Finance, exceeding the target of 13.6%. To improve poor implementation of tax legislation, USAID provided assistance to the Ministry of State Revenues and Duties (MSRD) in designing a new functional organization that was approved by the Government of Tajikistan this past summer. The new organization separates the functions of registration, inspection, and audit, thus lessening opportunities for corruption. Additionally, USAID advisors assisted with developing the Taxpayers' Registration System software for the Tax Department of the MSRD. In agreement with the Tax Department, similar systems were developed for tax inspections in two pilot districts, and those systems were linked with the server at the Tax Department. The current database of the Tax Department Headquarters has 24,400 taxpayers: 21,824 legal entities and 2,589 physical persons. As a result, the Tax Department will have a global Taxpayers' Registration System. In parallel, a computerized Tax Reporting System is being developed.

USAID's Legal Infrastructure for Market Environment Project assisted with implementation of a new Bankruptcy Law, which was recently adopted and represents a significant improvement over the old law. Since passage of the new law, some of its flaws have been remedied through amendments; and, by supporting the training of judges, attorneys, and bankruptcy trustees, the project continues to provide critical assistance in creating the framework necessary for the bankruptcy process to work properly, thereby facilitating the rehabilitation of insolvent companies and freeing up assets to be put back to work in Tajikistan's nascent market economy. The bankruptcy trustees trained by the project were officially approved by the High Economic Court and have had a clear impact on bankruptcy proceedings in Tajikistan. Since they were trained, five new bankruptcy cases have been filed in Tajikistan. The project cooperated with other donors to institutionalize continuing judicial education at the new Tajik Judicial Training Center (JTC), making it more permanent and sustainable.

[[NOTE that the discussion of the program component includes information on key program/project achievements, including discussion of a key result – tax revenue as a percent of GDP – listed in the indicator table.]]** **[[**NOTE: This section does not respond to the guidance requirements for information on critical gender issues and or dynamics, what gender factors are critical to the achievement of the SO, how gender issues have been integrated into the activities, and how gender biases will be improved.]]**

Increase Participation In Global Trade And Investment **[[**NOTE selection of an appropriate program component]]**

Tajikistan is one of the most liberal trading regimes in the Commonwealth of Independent States and is committed to WTO membership in the near future. Due to USAID assistance, the first WTO Working Party for accession took place in March 2004. In preparation for the Working

Party, USAID-funded experts reviewed and assisted in the revision of a significant number of documents, including market access offers on goods and services. As a result, the Working Party meeting was constructive and subsequent questions from members are now being reviewed and replies formulated.

Under the Enterprise Development Project (EDP), USAID works to promote regional trade. This past year, trade advisors facilitated trade deals worth more than \$2.5 million, including export of rebar to Afghanistan for \$183,750; export of locally-produced soft drinks to Afghanistan for \$168,000, and import of timber from Russia for \$127,000. In addition, USAID's Trade Facilitation and Investment Project assisted in the removal of illegal border checkpoints that added additional costs to businesses doing trade in the region.

In association with USAID's Fiscal Reform Project, USAID recommended that representatives from Tajik Customs join their counterparts at the Ministry of State Revenue and Income for a study tour to the Canadian Income and Customs Agency to learn about unified tax and customs registration systems. The unified system coordinates registration activities of tax and customs authorities and, thus, is less intrusive for businesses. The study tour provided a unique opportunity to Tajik officials to become familiar with this system and eventually led, through recommendations of the International Monetary Fund and USAID technical support, to the adoption of a similar system that unifies both tax and customs in Tajikistan. The same system is applied to audit activities of the two departments.

[[NOTE that the discussion of the program component includes information on key program/project achievements.]]** **[[**NOTE: This section does not respond to the guidance requirements for information on critical gender issues and or dynamics, what gender factors are critical to the achievement of the SO, how gender issues have been integrated into the activities, and how gender biases will be improved.]]**

Increase Private Sector Growth **[[**NOTE selection of an appropriate program component]]**

USAID continued its work on reducing business constraints to improve the business environment, providing direct support to SMEs to help increase their productivity through improved financial management, marketing, and business planning; and supporting a Russian-based accounting certification program. EDP provided enterprise improvement consulting services to 48 local enterprises. These services resulted in actual portfolio sales growth in excess of \$8.4 million, with average actual sales increases of 42% and productivity increases of 6% for the assisted enterprises. Forty trade deals for Tajikistan enterprises were directly assisted, valued at just over \$2.5 million. EDP also trained 1,033 participants in business plan development, marketing, human resource management, and financial analysis, helping these people acquire the skills necessary to make informed business decisions within their firms. EDP's assistance to export-oriented SMEs focused on increasing value-added services and improving the competitiveness of their products. Lack of latest processing and packaging technologies and low quality of raw materials SMEs receive from local producers present another challenge for SMEs in Tajikistan. A pilot productive project on packaging dried apricots in plastic bags was launched in Isfara to fill holes in the supply chain by establishing pilot agro-industrial facilities that do not yet exist in the Ferghana Valley, with the intention that other entrepreneurs will see the profitability and be motivated to establish similar facilities with their own funds or commercial credit.

With USAID assistance, the Ministry of Finance released a new Tajik Chart of Accounts in May 2004. The Chart of Accounts will give Tajik businesses an accounting framework that is governed by International Financial Reporting Standards (IFRS) and will greatly enhance the standards of business accounting in the country and lead to increased international recognition and acceptance of the accounting methodology. During 2004, 51 accountants passed the exams to become Certified Accounting Practitioners. This number represents only 41% of the target. The examination pass rate in Tajikistan was only 26% compared to 40% in other Central Asian

Republics. The main reason for the unmet target was the more recent introduction of IFRS into Tajikistan compared to the other countries. **[[**NOTE: A key indicator listed in the table is discussed, and performance – relative to comparable countries and the target set – is described.]]**

The Tajik Law on Licensing was developed with USAID support and passed by the Parliament in May 2004. The new law, unlike the earlier version, establishes a full and clear list of the types of business activities requiring licenses and simplifies the procedures for getting those licenses, saving licensees both time and money. As a result of the new law, 12 types of licenses are issued in a shorter period of time; nine types of licenses and permits will no longer be required; 23 licenses cost less than they used to; and 24 licenses are valid for longer periods, reducing the license renewal costs. Another business burden was reduced in Khujand City with its decision to lower the sales tax on goods from 4% to 1%. USAID advisors first identified this burdensome tax by interviewing local businesspeople and establishing how much they paid in revenue tax annually. An analysis was formulated which showed what the businesses would likely do with the extra money if the tax was reduced. The analysis was submitted to the Department of Economics of Khujand City to review at the Meeting of People's Deputies. After reviewing USAID's analysis, the local government announced that it would lower the revenue tax from 4% to 2%, except in the Panjshanbe market, where the tax will remain the same in an effort to reduce overcrowding. Food sellers will pay only 1% revenue tax.

[[NOTE that the discussion of the program component includes information on key program/project achievements.]]** **[[**NOTE: This section does not respond to the guidance requirements for information on critical gender issues and or dynamics, what gender factors are critical to the achievement of the SO, how gender issues have been integrated into the activities, and how gender biases will be improved.]]**

Strengthen The Financial Sector's Contribution To Economic Growth **[[**NOTE selection of an appropriate program component]]**

To provide SMEs with better access to financing, USAID continued to strengthen banking supervision and improve commercial legislation for microfinance. These policy-level initiatives were complemented by direct support to commercial banks in the form of training and to micro and small enterprises in the form of financial support through credit and microfinance programs. Restructuring of the financial sector has proceeded at a slow pace and the banking system remains extremely weak. The commercial banks lack administrative capacities, knowledge, and skills in providing banking services in a market environment and require institutional strengthening and training of human resources. Our assistance concentrated on strengthening the capacity of the National Bank of Tajikistan (NBT) to effectively supervise the commercial banking sector. Specifically, USAID improved NBT's supervisory capacity by advancing implementation of the Basle Core Principles, the international best practices for bank supervision. This assistance established a regulatory and reporting framework that will enable the NBT to recognize and remedy potential problems in the banking system before they occur. USAID advisors finalized the development of the off-site surveillance system, FinA, and are developing, designing, and testing a Uniform Bank Performance Report (UBPR). The UBPR is not designed to replace on-site examinations but to supplement and strengthen present examination procedures and, most of all, to build the off-site surveillance system of the supervision department. The introduction of this new, automated methodology will allow the NBT to enhance its bank monitoring capacities and identify and monitor risks emerging in the banks. The work on strengthening the NBT's supervisory capacity has contributed to growing confidence in the sector. Deposits increased from 4.76% of GDP in 2003 to an estimated 5.5% of GDP in 2004.

A microfinance law, drafted with USAID assistance and adopted in April 2004, establishes a comprehensive and coherent legislative base for microfinance activities in Tajikistan. The legislation enables microfinance organizations to develop into more sustainable financial institutions. Among the most prominent features of the law is its allowance for deposit-taking by

appropriately regulated microfinance institutions. The law will serve as a platform for future changes in the tax law to further improve the enabling environment for microfinance in Tajikistan. Additionally, USAID partnered with EBRD to launch a new program that provides a credit line of up to \$12 million for micro and small businesses via commercial banks and trains loan officers at the banks in best lending practices. The program is working with three partner banks, which represent approximately 30% of the total Tajik banking assets. USAID funding is helping the banks streamline their lending procedures, train loan officers in credit analysis, and develop loan products tailored to Tajik entrepreneurs' requirements. Cumulative disbursements since October 2003 amounted to \$4 million or 1,540 loans. Eighty six percent of the disbursed loans are below \$5,000 with 85% of all clients being new to the banking sector. The average loan size disbursed was \$2,625.

[[NOTE that the discussion of the program component includes information on key program/project achievements.]]**

Expected Accomplishments Next Reporting Period: Recently begun work in land tenure reform is expected to produce new regulations and amendments to existing land laws to streamline the farm restructuring process, strengthen land property and leasehold rights, and promote land market transactions. In addition, 2,000 dekhan farmers in southern Tajikistan will receive legal assistance to help them exercise their land rights. A revised section of the civil code, a joint-stock company law, licensing regulations, a pledge law, and a law on registration of immovable property drafted with USAID assistance will be adopted. Passage of these laws in forms advocated by USAID experts will further establish the basis for modern market economy transactions. However, after the laws are passed, the Government will face the more difficult task of proper implementation of these laws. Computerization of the taxpayer registration and administration systems in Dushanbe City will be completed and possibly expanded to regional offices, depending on resource availability. Continued improvements in bank supervision will lead to progressively greater compliance with Basle Core Principles, which establish the international standards for bank regulation.

CHANGES TO SO: To reap management as well as programmatic economies, our new Economic Policy Project will combine several instruments into one regional project. The new configuration will enable scarce expertise to be shared across countries in the region and simplify contract administration. Evaluations are being performed on the Mission's regional microfinance program and program to support SME development, the results of which will help inform future program decisions as well as ongoing project management. An initial assessment was completed for commercial law activities in Tajikistan and discussions are being held on the possible merger of this work with other legal and regulatory initiatives. This year, depending on resource availability, a new regional land tenure reform project will be designed that is tailored to meet the specific needs of Tajikistan and Kyrgyzstan, but which will capture administrative and programmatic economies. **[[**NOTE: This paragraph identifies efforts to streamline program management and thereby improve efficiency.]]** **[[**NOTE: This section does not respond to the guidance requirements for information on critical gender issues and or dynamics, what gender factors are critical to the achievement of the SO, how gender issues have been integrated into the activities, and how gender biases will be improved.]]**

SO: 119-0131

SO Title: Improved Environment for the Growth of Small and Medium Enterprises

Program Title: Small and Medium Sized Enterprises

Status: Continuing

Indicator	Weight	Baseline Year	Baseline Year	Progress Direction	FY2001 Actual	FY2002 Target	FY2002 Actual	FY2003 Target	FY2003 Actual	FY2004 Target	FY2004 Actual	FY2005 Target	Date Last

			Data	+ or -									Quality Assess
Business Environment Index (Survey)	5	2000	28	+	31.1	29	32.1	30	35.1	31	39.7	41.7	2004
Number of certified accounting practitioners	3	2002	8	+	0	0	8	68	69	125	51	106	2004
Tax revenue as a percent of GDP	3	2002	12.7	+	0	0	12.7	13.1	13.5	13.6	15.3	15.5	2004

[**NOTE the Business Environment Index target does not appear to have been updated since the FY03 actual exceed the FY04 target. The narrative for the tax revenue as a percent of GDP states that the figure for 2003 was 14.9%.] [**NOTE that the number of certified accounting practitioners should be disaggregated by sex.]

South Africa

C. Results Framework Example

674-001	Democratic Consolidation Advanced
	1.3- Strategic CSO/Government Partnerships Strengthened for Improved Policy Development and Service Delivery IR 1.1- A more effective and accessible criminal justice system. IR 1.2- Effective and Democratic Local Governance
674-002	Increased Access to Quality Education and Training
	2.4- Mitigate the Impacts of HIV/AIDS on the Education sector IR 2.1- Enhanced Capacity of Teachers (targeted to the teaching of numeracy, literacy, math, and science) IR 2.2- Effective Implementation of Curriculum (with a focus on math and science) IR 2.3- Improved Management and Governance of Educational Institutions
674-004	Improved Capacity to Formulate, Evaluate and Implement Economic Policies
	IR 4.1- Strengthened human resources in economics and policy IR 4.2- Strengthened government departments that deal with economic policy matters IR 4.3- Strengthened think tanks to formulate and deal with economic policy options IR 4.4- Strengthened centers of economic excellence in teaching and research at historically disadvantaged Universities
674-006	Increased Access to Shelter and Environmentally sound Municipal Services
	IR 6.1- Improved policy environment for facilitating access to shelter and urban services** IR 6.2- Capacity building initiatives in service delivery and housing undertaken**
674-008	Increased Use of HIV/AIDS and Other Primary Health Care Services
	IR 8.1- HIV/AIDS prevention measures strengthened IR 8.2- Management of STIs improved IR 8.3- Treatment for TB and AIDS improved IR 8.4- HIV/AIDS care and support expanded IR 8.5- Selected primary health care systems and services improved
674-009	Increased Market-Driven Employment Opportunities
	IR 9.1- More Rapid Growth of Existing Small Medium and Micro Enterprises IR 9.2- Increased Commercial Viability of Existing Small and Medium Agribusinesses

South Africa

D. Resource Request Narrative Example

a. Rationale and Justification: The USAID Country Strategic Plan (CSP) was approved in 2000 and the last year of funding was extended from 2005 to 2007 during a formal triennial review conducted by USAID/Washington in June 2003. As a result of this CSP extension, increases in the authorized levels for funding for USAID/South Africa's Strategic Objectives were approved. The request levels in the appropriations tables are consistent with these revised levels and control figures and recent guidance from USAID/W for planning for FY 2007. Since FY 2002, the Rand has appreciated more than 100% against the dollar, rising from a low of R13.44:\$1 in

December 2001 to the current R5.75:\$1. This dramatic increase has had a detrimental impact on program performance as USAID/South Africa has been forced to reduce the size and scope of activities to fit within funding ceilings

The appropriations tables also indicate the request levels for various Presidential Initiatives which USAID/South Africa will support in FY 2005 for which we have received control levels. We note that the current control figures do not include allocations for the Anti-Corruption Initiative from which we anticipate receiving a minimum \$500,000 to continue key activities in this area. The request levels of the Presidential Emergency Plan for AIDS Relief also are not included in the table. The most recent guidance from USAID/W indicates that all HIV/AIDS funds will report funding and results under the Office of the Global AIDS Coordinator, and therefore, the request levels reflected respond to this guidance. Non-HIV/AIDS Child Survival and Health resources will be used to address the high priority by the South African Government of integrating primary health care and HIV/AIDS, and the continuing pressure on this account means that USAID is less able to respond to other critical South African objectives. The scope of the HIV/AIDS pandemic in South Africa clearly merits a wider response by the Mission. At present, non-health Strategic Objective teams use limited Development Assistance funding to initiate efforts to address the pandemic within their respective programs in their own sectors, but they need more flexible and greater access to HIV/AIDS funding to be able to demonstrate an impact.

USAID/South Africa has made a concerted effort to align programs to anticipated Presidential and Bureau Initiatives funding. The Education strategy specifically incorporates teacher training aspects of the Africa Education Initiative and plans to support in-service and pre-service training through 2007. The Democracy and Governance program is requesting Anti-Corruption resources through FY 2007 for key Anti-Corruption activities such as the establishment of community courts and commercial crime courts to deal with petty crimes and financial crimes to strengthen the court system in South Africa and ensure a rapid and higher conviction rate. The increase in Agriculture funding associated with the Initiative to End Hunger in Africa, from which the Mission anticipates receiving Plant Biotech funding in FY 2006 and 2007, will allow expansion of current activities in this field. It should be noted, however, that the biotech contributions to achievement of the Mission's Employment Strategic Objective are limited. USAID/South Africa programs also contribute to Presidential Initiatives in Global Climate Change, Clean Energy and Water for the Poor although the Mission is not receiving specific additional funding for these purposes. In addition, the regional urban development program housed at USAID/South Africa has been instrumental in the initiation of the African Mortgage Market Initiative program in Zambia. USAID/South Africa will use FY 2004 Economic Support Funds received in early FY 2005 to address land tenure issues and to implement training of prosecutors and investigators in skills needed to secure convictions in rape and corruption cases.

FY 2007: The Mission's new FY 2007 request represents the final year of funding anticipated under our current strategy. In most cases the funds requested are necessary to complete multi-year programs and achieve the overall Strategic Objective level results. The one exception to this is in the Economic Growth area. As noted above and in previous submissions, addressing unemployment is South Africa's number one priority and in FY 2007 the Mission will combine its two Economic Growth programs to focus specifically in this area. **[[Note the explanation of changes to the plan as a result of changed circumstances.]]** It is anticipated that the program will include policy analysis and interventions to address systemic constraints to small business growth as well as continuing firm level assistance to boost employment generation activities. For presentation purposes of this exercise, funding for the two programs is shown under 674-009; once further guidance and resolution on the Bureau Framework is completed, the Mission will make a determination if a new strategic objective is required for this program. USAID/South Africa teams are participating actively in the Sector Working Groups which are providing input for the new Africa Bureau Framework and the Mission recognizes that the new Framework will be in place by FY 2006, and thus the request for FY 2007 funds may be revised to fit the direction and objectives of the Africa Bureau strategy. USAID/South Africa anticipates continuing to participate

in numerous Presidential and Bureau Initiatives using FY 2007 including the Africa Education Initiative, the Anti-Corruption Initiative, Initiative to End Hunger in Africa, Trade, and Global Climate Change Initiatives among others. At the request levels indicated in the Appropriations Tables submitted with this revised narrative, USAID/South Africa would be able to meet continuing earmarks in microenterprise, biotechnology and Global Climate Change. Given the recently released Agency definition of biodiversity and the fairly tight parameters for activities under this earmark, USAID/South Africa will have difficulty in contributing more than \$250,000 to this earmark without a significant redesign of program activities and the resulting cessation of program activities which have already been agreed to with South African partners. Though most activities implemented by USAID/South Africa are bilateral in nature, the Mission does have management responsibility for several regional programs. The largest of these is the Regional HIV/AIDS Program (690-019) which receives CSH funds directly from Africa Bureau allocations for non-focus countries and additional limited "plus-up" funds for Lesotho and Swaziland where HIV/AIDS prevalence rates are among the highest in the world. The current constraints of the reporting system mean that this program is captured by RCSA although leadership, management, direction and support is provided by USAID/South Africa.

Earmarks and Directives: **[[Note how the mission explains how it will meet earmarks, directives and Presidential Initiatives. In addition, this year it will be necessary to indicate how the mission will respond to "Global Issues and/or Special Concerns" as per Goal 5 of the White Paper.]]** USAID/South Africa continues to receive numerous earmarks and directives within its control levels. In FY 2004 the Mission absorbed earmarks totaling \$4 million which included Biotechnology (Plant and Agriculture), Biodiversity, Microenterprise, Water for the Poor, and Global Climate Change programs. In many cases the earmarks have been received on an annual basis for numerous years and program implementation has been adjusted to fit with the earmarks. It should be noted however, that certain earmarks, such as Global Climate Change and Biodiversity do not respond to South Africa's highest development priorities and reduce the ability of the USAID program to optimize impact of USG resources. As noted in the Cover Memo, USAID/South Africa is prepared to make additional contributions to Africa Bureau earmarks. The Mission could program another \$250,000 in microenterprise funds, but not at the expense of unrestricted Economic Growth funds which are critical to create sustainable employment. We recommend decreasing Agriculture funds for \$250,000 in order to fund the microenterprise earmark and increasing Economic Growth funds by \$250,000. A close review of the activities under our Employment Generation strategic objective indicates that an additional \$625,000 of funding under this program could be attributed to Trade Capacity Building efforts. This is in addition to the \$300,000 Trade Initiative funding which is in our present control levels. With additional basic education funding our new education program could expand activities to more schools, but given the historical imbalances in South Africa, it is critical that we also retain a higher education program. In addition, it is important to note that the Basic Education requests contained in this report do not include core funding for the Africa-wide Mobile Task Team on HIV/AIDS program now managed by USAID/South Africa or for funding for the second and third years of the distance-learning partnership with Mindset Network which was developed by USAID/W. It is anticipated that Basic Education funding for these regional programs will come from Africa Bureau programs.

As noted in the Cover Memo for the Annual Report, USAID/South Africa also makes an appeal for additional Democracy and Governance funding to address gender-based violence. A recent study indicates that South Africa may have the highest incidence of rape and wife battering in the world. The same survey indicated that a woman is raped every minute in South Africa and that one-third of South African women are raped at some time during their lifetime. This deep-seated problem will continue to impede social and economic growth throughout the country and undermines other development achievements

Mix of Funding: USAID/South Africa's mix of resources should respond to the development needs of South Africa. Where possible and feasible, the Mission has adapted its strategic interventions

to meet these demands, but funding directives reduce the ability to respond to South African priorities. For example, the continued level of agriculture resources in control levels is a source of concern in that it limits the more flexible economic growth money which South Africa receives. Economic growth money can be used to address the key economic policy and employment generation programs to reduce poverty in South Africa. Decreases in core funding of ongoing strategic objectives such as Economic Growth, Democracy and Governance and Environment have already and will continue to result in contracted programs producing fewer results. This is of particular concern in that the top issues for South Africa are jobs, crime and lack of basic services. The Mission seeks to maximize the use of resources from all accounts including ESF. As noted above, the FY 2004 ESF funds recently received by USAID will support key government programs including anti-corruption training activities which cannot be funded with Development Assistance. The Nethercutt Amendment in draft FY 2005 appropriations language which would restrict ESF to countries which do not have an Article 98 agreement with the United States is of concern as it could effectively eliminate this program. **[[Note good discussion of types of funds, but this year it should also be related to the "White Paper" goal.]]**

Global Development Alliances and Partnerships: USAID/South Africa leveraged \$622 million in FY 2004 from Global Development Alliances (GDAs) and partnerships with non-traditional partners, primarily the private sector. A GDA with Business Against Crime, a nonprofit association of major South African corporations, continued to address accessibility and effectiveness of the South African Department of Justice. USAID continued to support a public private partnership with Microsoft and other key private sector firms to support teacher training in math, science and technology. A GDA in intellectual property rights and a regional GDA in the area of urban youth development have leveraged almost \$2.5 million over the last two fiscal years as well. **[[Note the mission identifies resources that are planned for public-private alliances.]]**

Furthermore, USAID programs with the South African Municipal Infrastructure Investment Unit (MIIU) and the Public Private Partnership (PPP) Unit leveraged approximately \$400 million. The PPP unit leveraged \$253 million, while the MIIU leveraged approximately \$103.7 million (R689 million) in FY 2004. On-going donor coordination in research on the economic impact of HIV/AIDS is expected to leverage \$8 million by the end of FY 2006. USAID also established two new partnerships with a non-profit South African organization, Mindset Network, which uses satellite broadcasts with additional print and internet material to expand educational information. One of these Mindset programs will focus on HIV/AIDS and related issues and will be targeted to healthcare workers, patients, and the general public, leveraging \$3 million at the end of FY 2005. The other partnership with Mindset, foundations, and key South Africa private sector firms delivers high quality materials in basic education and will leverage \$3 million by the end of FY 2007. While not meeting a strict definition of Global Development Alliances, these innovative partnerships continue to leverage additional resources for development as USAID input is limited to technical assistance in the design and structuring of these partnerships or transactions.

A conflict vulnerability analysis conducted in 2002 noted that there is no imminent threat of widespread political violence in South Africa. This was confirmed in the successful 2004 national elections in which even localized violence was minimal. The report made eight recommendations involving the following themes: preventing youth disaffection through civic incorporation; encouraging a holistic approach to community development; strengthening local government; fostering innovative partnerships for governance; enhancing skills for managing crisis and handling conflict; professionalizing policing; improving justice and legal representation; and training new political party leadership. The USAID program addresses the majority of these recommendations through interventions under existing funds. Those which are not included in the current program would require significant additional resources particularly in the scarce EG and DG categories.

Pipeline: USAID/South Africa continued to closely monitor pipeline in FY 2004, through proactive management and many programs reaching the full stride of implementation with overall pipeline

falling to \$91.4 million. The continued appreciation of the Rand has also contributed to increased expenditures and numerous activities are operating well below the 12 month target for pipeline. Three of our Strategic Objectives currently exceed the 18 month outer range for pipeline, i.e. Education, Increased Market-driven Employment, and the Health and HIV/AIDS programs. The pipeline for these programs stood at 23.8, 21.8 and 24.6 months of pipeline respectively at the end of FY 2004 and can be attributed to new contracts and activities starting up late in FY 2004 with little expenditures by September 30, 2004. For example, a new Integrated Education Project sponsored its first training for teachers in the last week of September 2004 consistent with a break between South Africa school terms. The late FY 2003 changeover to a new implementer for the Employment Opportunities Strategic Objective was necessitated by substantial audit findings with regard to the previous contractor and had a detrimental impact on expenditures as the new implementing partner had to recruit and place staff in seven provinces and then begin assistance to small agribusiness entrepreneurs. The Health Program is at a natural lull in program implementation for the non-HIV/AIDS activities as a seven-year contract for systems strengthening concluded in January 2004, and USAID signed two new health and TB awards in June 2004, with implementation beginning late in the fiscal year. Though tremendous efforts have been made to obligate funds quickly and spur implementation under the Emergency Plan, this program carries a heavy pipeline as new and expanded activities begin to roll out. The pipeline for the Health SO is \$34.1 million, or 37% of total Mission pipeline. Expenditure levels under the Strategic Objectives with high balances are expected to increase significantly in FY 2005 and reduce the pipeline accordingly. It is expected that the expenditure rate will increase to such an extent that it will bring the pipeline fully within forward funding guidelines within the next fiscal year. The management steps taken by the Mission to deal with the pipelines will soon result in increased rapid expenditures. **[[Note that the mission explains the pipeline issues and how they will be dealt with, but more explanation could be used to link to performance and how this impacts the request levels.]]**

Close-outs and Decommits: The Mission regularly reviews the activities to identify commitment balances in excess of accrued and anticipated close-out expenditure requirements. USAID/South Africa instituted a more rigorous process for monitoring open commitments and moving expeditiously toward decommitments. The Mission has a full-time dedicated close-out specialist in the Regional Contracting Office and conducts specific reviews of progress on close-outs during the Missions' semi-annual Portfolio Implementation Reviews. In addition, in FY 2005 USAID/South Africa will bring on board additional help to resolve the growing backlog and to train SO teams on close out procedures. Despite these efforts, USAID/South Africa is faced with a large backlog of closeout actions which contribute significantly to the overall pipeline. The Mission is implementing specific plans to accelerate close out of zero-balance expired actions and will seek short term help to consolidate the close-out process. USAID/South Africa is actively pursuing decommitments. The amount of \$61.76 million was obligated directly by USAID/South Africa, and \$730,335 was de-obligated FY 2004.

Operating Expenses Requirements: Obtaining appropriate USAID/South Africa OE levels is one of the Mission's highest priorities. Without adequate OE, USAID is unable to respond to the needs of South Africa and promote U.S. foreign policy objectives. The South African Rand continued to appreciate throughout FY 2004, which was budgeted at a R6.5:\$1 exchange rate. While the average exchange rate during FY 2004 fell within that range, the current rate is R5.75:\$1. Many of the Mission's expenses are denominated exclusively in Rand (FSN compensation, housing rents and utilities, telecommunications, office and residential maintenance, security services, domestic travel, etc.) while others have heavy local-cost components (education allowances, international travel/freight, ICASS, school fees etc.). In addition to the exchange rate change, market escalation in the cost of residential rentals has resulted in over 50% of mission housing requiring waivers for rents in excess of \$25,000 per annum. In addition, the American International School where a majority of OE-supported school-age children attend schools increased fees by 15% in U.S. Dollar terms for the current school year as it made adjustments for the Rand appreciation against the dollar. These additional costs

directly impact the OE request levels for the Mission. Rand expenditures make up 72% of the total OE budget. Given the current rate of exchange, in order to operate at the same level as the FY 2004 budget level, the Mission's requirement would increase by \$564 thousand from \$5.266 million and to \$5.830 million. The Mission is able to reduce that increased request to \$5.627 million due to increased administrative support cost billings to the Regional Inspector General's office and the Office of Foreign Disaster Assistance. These savings to the Mission's OE requirement are the direct result of using ICASS methodology as the means of calculating the charges to these organizations.

Workforce: At the end of FY 2004, total staff located at USAID/South Africa included 118 incumbents for USAID/South Africa, five Office of Foreign Disaster Assistance (OFDA), and two Food For Peace (FFP) staff as well as another 11 Regional Inspector General positions. These latter positions for the Inspector General are not included in the Workforce Planning table. The 118 bilateral mission positions comprise 20 USDH, 10 other American (USPSC/PASA/TAACS/fellows), and 88 FSNs. This reflects a projected low point in staffing following a major OE-driven Reduction in Force (RIF) in 2003 and additional reductions in program-funded staff in 2004.

Note: The 20 USDH positions in the USAID/South Africa template do not correspond to those in the Workforce Planning Table. The Mission anticipates the conversion of as many as five USPSC positions to USDH status (Foreign Service Limited (FSL) and Family Member appointments) in FY 2005 and beyond and these positions are reflected in the USDH category in the tables. Two OFDA USPSC employees have already been offered FSL appointments which we expect to be taken up in FY 2005; another USAID/South Africa USPSC is applying for an FSL appointment which would be program-funded. USAID/South Africa is pursuing the conversion of one local-hire USPSC to a Family Member USDH appointment; funding for this latter conversion is included in the OE budget projections.

USAID/South Africa is projecting a net increase of nine positions from FY 2004 to FY 2005. This increase will provide additional program-funded staff for the bilateral and regional health programs which are needed to manage new and expanded activities under the President's Emergency Plan for AIDS Relief. The Mission also expects the arrival of a New Entry Professional education officer and an International Development Intern executive officer in 2005, posted here for a training tour. These positions will be funded by M/HR on its own complement outside the Mission's template ceiling. The remaining staffing increases for FY 2005 are local hire positions which address critical needs for improved leased housing coordination and shared clerical coverage.

The Workforce Planning tables show an increase from 115 on-board strength to 134 projected at the end of FY 2005. Therefore, it is worth repeating that the net increase is ONLY nine positions, not the 19 shown on the table. The FY 2004 total excludes 10 vacant positions. The totals for FY 2005-2008 are unrealistically high in that they assume no vacancies, and they would drop to the 124-126 range using historical vacancy rates.

All technical office staff other than USDH employees are now fully program-funded--even two of our USDH employees are program-funded through a special HIV/AIDS program allotment. Budgetary assumptions are that this HIV/AIDS funding will continue. Other program-funded staff include all contract specialists and financial analysts who carry specific program-support responsibilities. In FY 2005, USAID/South Africa will review further options for using program monies to fund a share of certain Executive Office staff, enabling the Mission to maintain services within its projected OE budget level.